Limited Assurance

IAASB Consultative Advisory Group
London
14-15 September 2010

Objective of this session

• Overview of the defining characteristics of a limited assurance engagement

• Similarities and differences with agreed upon procedures

• Similarities and differences with reasonable assurance engagements

• Highlighting some of the myths
Limited assurance

Three of IAASB’s current projects deal with limited assurance:

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<tr>
<th>CAG Agenda</th>
<th>Topic</th>
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<tr>
<td>D</td>
<td>ISRE 2400, Engagements to review historical financial statements</td>
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<td>N</td>
<td>ISAE 3410, Assurance on a greenhouse gas statement</td>
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<td>R</td>
<td>ISAE 3000, Assurance engagements other than audits or reviews of historical financial information</td>
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Some commonly held perceptions

- All limited assurance engagements provide the “same” level of limited assurance
- All limited assurance engagements involve the same type of procedures (albeit more limited than for reasonable assurance engagements)
- Even if limited assurance engagements might be different between subject matters, they will be the same for a particular type of subject matter
Concept of limited assurance

Level of assurance obtained through performing evidence-gathering procedures

No assurance  Absolute assurance

Limited assurance engagements
- Engagement risk higher than in a reasonable assurance engagement
- Nature, timing or extent of evidence-gathering procedures deliberately less, but still results in a level of assurance that is meaningful to users
- Negative form of conclusion

Reasonable assurance engagements
- Engagement risk reduced to an acceptably low level
- High, but not absolute, level of assurance obtained
- Positive form of conclusion

Defining characteristics

Procedures to be performed
- Procedures will be deliberately more limited in nature, timing or extent than in a reasonable assurance engagement
- A subject matter specific standard may define the procedures ordinarily expected (e.g., primarily inquiry and analytics in ISRE 2400)
- However, judgment will always be required in the context of a particular engagement regarding the specific procedures performed
Defining characteristics

Planned level of assurance

• Planned procedures (and the evidence expected to be obtained from them), in effect, define the planned level of assurance

• The planned level of assurance may be difficult to articulate specifically, but nevertheless will be designed to be meaningful to the intended users

• To be meaningful, need to enhance users’ confidence to a degree that is clearly more than inconsequential

Defining characteristics

Judgments involved

• Specific procedures to be performed, or where they are directed, based on the understanding obtained

• Also standards define the triggers that require the practitioner to “dig deeper” and perform additional/further procedures

• In addition, if evidence obtained is not as relevant or reliable as expected, need to respond
Defining characteristics

Reporting

• Summary of work performed is particularly important in the report because it is not possible to communicate different levels of assurance clearly and unambiguously.

• That summary provides the context for the conclusion that “based on the procedures performed, nothing has come to our attention……”

Similarities and differences

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<tr>
<th>Agreed upon procedures</th>
<th>Limited assurance engagements</th>
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<tr>
<td>User determines adequacy of the planned procedures to be performed for their own needs</td>
<td>Practitioner determines planned procedures that are designed to result in obtaining a level of assurance that is meaningful to intended users</td>
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<tr>
<td>Practitioner performs requested procedures only</td>
<td>If evidence obtained from the planned procedures so indicates, need to perform additional procedures</td>
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<tr>
<td>Report facts and findings only</td>
<td>Form conclusion about the subject matter information based on the evidence obtained</td>
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Similarities and differences

<table>
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<tr>
<th>Reasonable assurance engagements</th>
<th>Limited assurance engagements</th>
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<tr>
<td>Understanding of the entity and its environment, including internal control, that is sufficient to provide a robust basis for the identification and assessment of risks of material misstatement.</td>
<td>Understanding of the subject matter and other engagement circumstances that is sufficient to design and perform procedures that will provide planned level of assurance. Usually less extensive and, in particular, may not require understanding of internal control.</td>
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<td>Plan further procedures designed to respond to identified and assessed risks</td>
<td>Practitioner plans procedures that are designed to result in obtaining a level of assurance that is meaningful</td>
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<td>Perform procedures necessary to obtain sufficient appropriate audit evidence to reduce the risks of material misstatement to an acceptably low level</td>
<td>Perform additional procedures if results indicate that a material misstatement is likely to exist. However, residual risk of undetected misstatements will be higher than in reasonable assurance engagement</td>
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<tr>
<td>Positive form of conclusion</td>
<td>Negative form of conclusion</td>
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**Myths**

- All limited assurance engagements will provide the “same” level of limited assurance
- All limited assurance engagements will involve the same type of procedures
- All limited assurance engagements for a particular type of subject matter need to be the broadly the same
International Auditing and Assurance Standards Board

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